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# AUDITING OF FINANCIAL REPORTING IN THE REPUBLIC OF UZBEKISTAN

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**Abstract:** the article is devoted to the necessity of applying international financial reporting standardsof financial statements of audit in the audit prepared on the basis of IFRS, the main functions of external audit, the collection of audit evidence, the audit of financial statements on the basis of international standards of audit in the Republic of Uzbekistan**.**

**Keywords:** audit, the purpose of the audit of financial statements, international financial reporting standards, international auditing standards, users of financial information, audit evidence, external audit, internal audit, audit opinion**.**

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## Introduction

The desire of Uzbekistan to integrate into the world economic community, to expand participation in the activities of international organizations requires the country to ensure the unity of national accounting standards with the methodological principles adopted in world practice, the comparability of financial statements of domestic business structures with similar indicators used in foreign countries.

As Uzbekistan is increasingly becoming a full member of the global economic system, international practice is increasingly influencing the development of domestic accounting and auditing. Determination of the main trends in accounting regulation allows to predict the directions of development of the national system of regulatory accounting and to formulate some requirements for it.

As the world community integrates, it is required to prepare financial statements based on international financial reporting standards and to confirm them based on international auditing standards in order to attract foreign capital. One of the necessary auditing of the activities occurring on the part of leading multinational audit firms. This is due to the high level of competitiveness and globalization of the audit business, which requires the audit of financial statements on the basis of international norms and standards of audit. The process of reforming the accounting system in the Republic of Uzbekistan, the transition of domestic accounting practices to international financial reporting standards has a significant impact on the development of standards of audit activity the Development of generally recognized requirements and accounting principles leads to an increase in the degree of unity of reporting, as a result, it is possible to apply common approaches to audit.

Based on the above, we can conclude that the need for international standards of audit arose in connection with the following circumstances:
1) the possibility of presenting biased information of financial statements by its compilers in the event of a conflict between them and the users of this information (owners, investors, creditors);
2) the dependence of the consequences of management decisions (a they can be very significant) on the quality of financial information;

3) the need for special knowledge of IFRS for external audit by external audit companies;
4) lack of access to it for assessment of its quality at users of the financial statements made on the basis of IFRS.

**Literature review**

The availability of reliable information in the financial statements improves the efficiency of the capital market and makes it possible to assess and predict the consequences of various economic decisions of external investors. An audit, even when it is not mandatory, is undoubtedly important for reaching the international level.

There are many definitions of audit — some of them are enshrined in official regulations, both international and national, other definitions are given by experts in the field of audit.

According to Bychkov S. M., Itygilov E. M. the essence of audit means "the Essence of audit and audit activity is defined as the International auditing standard ISA 200 Purpose and General principles governing the audit of financial statements". The standard States that "the Purpose of the audit of the financial statements is to enable the auditor to Express an opinion as to whether the financial statements have been prepared in all material respects in accordance with the established conceptual framework for the presentation of the financial statements" (1.266 p.).

This issue is described in more detail in the legislation of the Republic of Uzbekistan, as according to the law of the Republic of Uzbekistan "On auditing"(new edition) of 26.05.200 № 78-II defines the concept of auditing: "Audit activity is understood as the entrepreneurial activity of audit organizations to provide audit services. Auditservicesincludeauditsandprofessionalservices"(2.23 p.).

According to A. K. Ibragimov, at the macroeconomic level, the audit is an element of the market infrastructure, the need for which is determined by the following circumstances(3.56-59p.):

a) financial statements are used for decision-making by interested users, including management, participants and owners of property of an economic entity, real and potential investors, employees and customers, authorities and the public in General;

b) the financial statements may be subject to misstatement due to a number of factors, including the use of estimates and the possibility of ambiguous interpretations of the facts of economic life; in addition, the reliability of the financial statements is not automatically ensured due to the possible bias of its preparers;

c) the degree of reliability of financial statements, as a rule, can not be independently assessed by the majority of interested users due to the difficulty of access to accounting and other information, as well as the large number and complexity of business transactions reflected in the financial statements of joint stock companies.

During the audit of the financial statements, sufficient and appropriate audit evidence must be obtained to enable the audit organization to draw conclusions with a sufficient degree of confidence regarding the:

a) compliance of accounting of joint-stock companies with the documents and requirements of regulations governing the procedure of accounting and preparation of financial statements in the Republic of Uzbekistan;

b) compliance of the financial statements of joint-stock companies with the information available to the audit organization on the activities of the entity.

**Research Methodology**

An audit is designed to provide reasonable assurance about whether the financial statements in question are free from material misstatement. The notion of reasonable assurance is a General approach relating to the process of gathering audit evidence that is necessary and sufficient to enable an auditor to conclude that there are no material misstatements in the financial statements that are presented as a whole. The concept of reasonable assurance applies to the entire audit process.

The restrictions inherent in audit and influencing possibility of detection by the auditor of material misstatement of the financial statements, due to the following reasons:

- sample methods and testing are used in the audit; any accounting and internal control systems are imperfect (for example, they cannot guarantee the absence of collusion);
- the majority of auditor proofs only gives arguments in support of a particular conclusion, but not exhaustive.

Limits the reliability of the audit and the fact that the work performed by the auditor to form his opinion is based on his professional judgment, in particular in relation to:
collection of audit evidence, including in determining the nature, timing and scope of audit procedures;

preparation of conclusions based on audit evidence, for example, in determining the reasonableness of estimates made by management during the preparation of financial statement.
In addition, there are other restrictions which can affect persuasiveness of the proofs used for a formulation of conclusions concerning certain preconditions of preparation of the financial statements. For such cases in some rules (standards) of auditor activity special procedures which owing to the content of separate preconditions provide sufficient appropriate audit evidence: in the absence of unusual circumstances increasing the risk of material misstatement of the financial statements beyond that which would be expected under normal conditions;
indication of any material misstatement of the financial statements.

**Discussion and analysis of results**

The main purpose of the audit of financial statements is an objective assessment of the reliability, completeness and accuracy of the reporting of assets, liabilities, equity and financial results of the company for a certain period, verification of compliance of the accounting policy adopted by the company with the current legislation and regulations.

***The reliability of the financial statements is understood as the degree of accuracy of the reporting data, which allows a qualified user of the reporting information to make correct conclusions about the financial position and results of the client's activities on its basis and to make appropriate informed decisions***.
The main purpose of the audit can be supplemented by the identification of reserves for the best use of financial resources, analysis of the correctness of tax calculation, development of

measures to improve the financial situation of the enterprise, optimization of costs and results of activities, income and expenses.

Audit work on the audit of financial statements involves the study and analysis of the report financial condition of the company (form № 1), the report on the total income of the company (form № 2), the report on changes in capital (form № 3), the statement of cash flows (form № 4), explanatory note (in terms of checking compliance with the principle of enterprise accounting policy).

During the audit, the correctness of the financial condition report, the statement of comprehensive income, the reliability of the explanations to them are established. Thus establish: whether all assets and liabilities are reflected in the report; whether all documents are used in the report; as far as the actual technique of an assessment of property deviates from accepted at determination of accounting policy of the enterprise.

The auditor checks the statement of comprehensive income of the enterprises for establishment of correctness of calculation of accounting and taxable profit.

The auditor should check:

1. completeness of implementation of decisions of owners of the enterprise on change of volume of authorized capital;
2. identity of synthetic and analytical accounting data on the accounts of assets and liabilities;
3. completeness of accounts receivable and accounts payable.
4. In the process of preparation of the audit report is checked:
5. observance of the accounting policy of reflection of economic operations and an assessment of property accepted at the enterprise;
6. correct allocation of income and expenses to the reporting periods;
7. differentiation in accounting of current production costs and capital investments;
8. ensuring the identity of analytical accounting data turnover and balances of analytical accounting on the first day of each month.

To achieve the main goal and provide an opinion, the auditor should solve a number of tasks and make an opinion of the auditor of the financial statements.

**Table 1.**

**Organization of external audit on the basis of international standards for the formation of the audit report**

| **№** | **External audit tasks** | **Questions for the formation of the audit report** |
|---|---|---|
| 1. | *Compliance of IFRS-based financial statements with accounting data* | does the financial statements as a whole comply with all the requirements of the legislation and other normative acts of the Republic of Uzbekistan, as well as international standards of audit applicable to it, and does not contain any contradictory information |
| 2. | *Comparison of separate reporting items on audit evidence* | are there grounds for inclusion in the financial statements of the amounts specified there, is there sufficient audit evidence to Express an audit opinion |
| 3. | *Completeness of IFRS-based financial statements* | whether all appropriate amounts are included in the financial statements; whether the relevant corrective entries are made, in particular, whether all assets and liabilities are owned by the company, whether the relevant funds of the companies are accounted for |
| 4. | *Classification and attribution to the relevant accounts* | is there any reason to attribute the amount to the account to which it is recorded, whether the transactions of economic operations are given correctly |
| 5. | *Evaluation and calculation of indicators* | are all items correctly estimated on the basis of international financial reporting standards and correctly calculated for the respective amounts and totals |
| 6. | *Validation of calculations and totals* | whether the amounts of individual entries correspond to the data in the books and journals of analytical accounting, whether they are correctly summed, whether the totals correspond to the data in the General Ledger |
| 7. | *Is the income and expenses* | are transactions conducted shortly before or immediately |

| | | |
|---|---|---|
| | *correctly attributed to the corresponding period* | after the balance sheet date related to the period in which they were made |
| 8. | *Disclosure* | are all items recorded in the financial statements and are they correctly reflected in the reports and their annexes |

Based on this table, the auditor can use various ways to accumulate the necessary information to achieve these goals. "Auditors (audit firms) in the course of their activities also solve a number of tasks related to the provision of audit services: verification of accounting and reporting, the legality of business operations; assistance in the organization of accounting; assistance in the restoration and maintenance of accounting, preparation of accounting (financial) statements. In addition, the audit requires the auditor can check on the basis of the contract and help to resolve the following issues:

- assistance in tax planning and tax calculation;
- advising on certain accounting and reporting issues;
- expert assessment and analysis of results of operations;
- advising on a wide range of financial and legal issues, marketing, management, technological and environmental consulting, etc.;
- development of constituent documents, etc.;
- providing information about future partners; customer information services;
- other services.». (3.67c.).

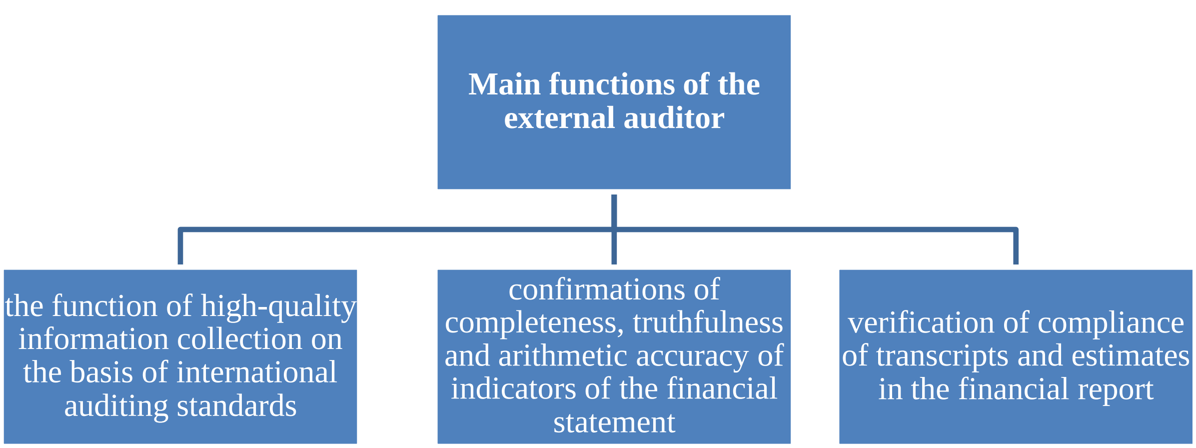


**Figure 1.The main functions of the external auditor.**

In carrying out the audit, independent auditors perform these basic functions, which are accepted in the international generally accepted accounting principles. The role of the evaluation function

— the interpretation of the evidence supporting the financial report's findings and the evaluation of the findings — has increased dramatically in the last two decades. This was partly the result of the administration's successful improvement of its internal control structures, which provides technically sound information. Auditors often consider it more appropriate to review the internal control system in order to obtain evidence of the effectiveness of its organization and performance than to review the information issued by the accounting system. Another reason for the shift in emphasis in the audit is the quantitative growth of complex transactions, transactions of a new type and the need to assess the way they are reflected in the reports of the administration. At the stage of preparation of the conclusion on reliability of the financial statements of the subject the auditor organization is obliged to generalize and estimate the conclusions made on the basis of the received data. This should be based on the criteria of compliance with regulatory requirements in the preparation of economic entity financial statements and its compliance with the information on the activities of the economic entity, which has an audit organization. The audit report should contain a clear opinion on the degree of reliability of the financial statements of the economic entity. An unqualified audit report testifies that the auditor organization considers the accounting reporting of the economic subject authentic in all essential relations. When drawing up a conditionally positive or negative audit opinion or making a refusal to Express an opinion on the reliability of the financial statements of an economic entity, it is necessary to specify the circumstances that caused a decision of the audit organization.

In our opinion correctly, this concept of opinion on reliability of audit Professor A. D. Sheremet, which outlined the following manner, "the Audit organization should achieve in the course of the audit reasonable confidence in the reliability of his opinion o reliability of the accounting reporting of the economic subject in all essential relations.".(4. 231p.).

Assessment of the required level of audit guarantees, reliability of the auditor's opinion on the reliability of the financial statements of an economic entity should be based on its professionalism. At the same time, the evidence should enable the audit organization to draw conclusions with confidence about the absence or presence of distortions in the financial statements of the economic entity.

**Conclusion / Recommendations**

Confidence of the audit organization in the reliability of the expressed opinion on the reliability of the financial statements of an economic entity can not be absolute due to the following factors, inevitably limiting the effectiveness of the audit:

limited awareness of the audit company about the activities of the subject within the framework of research, the costs of which should be within economically acceptable limits;

the presence in the audit work of the inevitable element of subjectivity in the auditor's decision-making on the basis of their professional judgments, in particular in determining the types, scope and schedule of audit procedures;

the use of a selective approach to the audit due to the irrationality of its conduct in a continuous manner;

the use of the audit organization as a basis for the formation of conclusions and conclusions of audit evidence, which by their nature are a combination of facts and opinions (for example, the audit organization can use the results of the work of the involved expert — appraiser, engineer, geologist - resulting in its conclusion as objective data on the research, and their own opinions and conclusions);

exposure of accounting systems and internal control of the economic entity to their inherent flaws;

the absence of absolute obstacles for roguish arrangement to the purpose of distortion of information;

the presence of uncertainty caused by various interpretation and an estimation of some events of economic life, a .also, other circumstances that make it impossible to apply only objective criteria for both the preparation of financial statements and the assessment of its reliability.

These factors limit (the level of acceptable, not absolute confidence) the provision of the audit organization guarantees the absence of any other (not found in the course of the audit) circumstances that have or may have an impact on the financial statements of the economic entity.

During the audit, due to objective and subjective reasons, it is impossible to exclude the possibility that distortions in the financial statements of an economic entity may go unnoticed.
If there are signs of possible misstatement of the financial statements, the audit organization should increase its procedures to dispel or confirm any doubts.

The auditor should test the reality of constraints of the enterprise the right of ownership of the assets, the reliability of assurances provided in respect of the obligations, the level of reliability of contingent assets and liabilities, evaluated quantitatively, to check the validity of the adopted amounts of commitments for future capital expenditures.

When checking the data of accounting and reporting analyze the availability and status:

- property, plant and equipment (fixed assets and investments, reserves and costs, intangible assets);
- other long-term assets (long-term investments, investments in subsidiaries and branches, associates);
- cash, settlements and other assets (cash, settlement and currency accounts, securities and short-term financial investments, settlements with participants, settlements with buyers, debtors);
- long-term liabilities (authorized capital, depreciation of property, special funds and reserves); loans and other borrowed funds;
- calculations and other passives (calculations with creditors, with the budget, insurance bodies, the enterprise personnel); other liabilities.

When checking the correctness of the definition of financial results of the enterprise provides for the study of:

1. revenue (gross income) from sales of products (works, services);
2. cost of production of sold products;
3. results from financial activities and other non-operating activities.

When auditing financial statements, it is necessary to verify the correctness of the balance sheet, income statements and other financial documents. Subject to verification of all significant transactions and transactions major transactions and transactions at the end of the quarter or fiscal year, financial highlights, ratios and key figures different from estimated on the average over the past five years, an unsatisfactory situation with the circulating assets, the elicited facts testifying to unreasonable o the need to raise revenue to keep stock prices, the reasons and character of judicial claims to the company, especially in connection with the shareholder claims, the use of different forms of financial statements in the company's divisions.

When checking the use of profits, they analyze payments to the budget, contributions to the reserve (insurance) Fund, transfers of profits to accumulation funds, to the consumption Fund, to charitable and similar purposes, to fines.

Particular attention should be paid to the analysis of receivables and payables, the dynamics of long-term and short-term financial investments (in shares and shares of other enterprises, bonds and other securities, loans, etc.).

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